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UNITED STATES DEPARTMENT OF AGRICULTURE
AGRICULTURAL ADJUSTMENT ADMINISTRATION

Making the Most of the Home Market

Adapted from an address by Secretary of Agriculture Henry A. Wallace before a meeting of farmers at the University of Nebraska, Lincoln, Nebraska, May 4, 1936

Highlights.—While industry has looked almost entirely to the domestic market, agriculture has had to look in considerable part to the foreign market. Industry has asked and obtained high protection for its goods in the home market, while agriculture could get very little benefit from such protection except temporarily and after a year of unusually bad weather.

The peak of imports caused by the unprecedented drought of 1934 was reached in 1935. Imports of oats have been negligible since May 1935. Imports of corn have receded rapidly since November. Imports of rye have been insignificant since August. Imports of butter reached their peak in April 1935, and since July have been below the 10-year average. Only wheat imports have continued in unusual amounts, because the 1935 crop was badly damaged by rust disease.

The real question is, Are farmers going to accept the high tariff idea as a cure-all for agriculture? All through the twenties farmers asked for a real program for agriculture that would enable them to meet the situation of surplus acres, and they got high tariffs. Agriculture was not helped, but harmed.

To sell abroad we must buy abroad, particularly more industrial products. But tariffs on such products are now so high as virtually to create domestic monopolies.

While time and money spent by industrialists in opening up new uses for agricultural products are a fine contribution to the general welfare, this industrial-use program in itself does not seem to be a solution to the farm problem.

For agriculture, the real hope of making the most of the home market does not lie in cutting off a few imports, but in building up the purchasing power of city consumers. Agriculture benefits from increased industrial activity and from measures designed to put purchasing power into the hands of the large numbers of people who still have almost none. This is agriculture's great stake in the national welfare.

Americans Proud of Their Home Market

The United States has long been proud of its home market as the broadest and wealthiest single market for goods in the world.

There has, however, been difficulty in working out equitably the ideal of a preeminent domestic market. While industry has looked almost entirely to the domestic market, agriculture has had to look in considerable part to the foreign market. Industry has asked and obtained high protection for its goods in the home market, while agriculture could get very little benefit from such protection, except temporarily, and after a year of unusually bad weather. Industry also obtained great advantage from the corporate form of organization as a means of exploiting its markets more efficiently, while agriculture in its very nature could make little use of this powerful instrument.

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Farmers' Market at Mercy of World Prices

Since 1920 farmers' troubles have largely grown out of the unprotected export position of farm products. The collapse of the World War market, coupled with a high industrial tariff policy and great foreign indebtedness to the United States and coincident with a shift on the farms from animal to tractor power, left American farmers with some 50,000,000 excess acres under cultivation. The products of these acres could no longer be sold profitably abroad, and when they piled up at home they smashed prices on the home market as well.

Since 1933 the Government has grappled with the task of helping farmers to adjust exportable surpluses to demand, and thus to keep them from weakening both the home and the foreign market.

Many nations have felt it necessary to adopt nationalistic policies, setting up quotas, embargoes, domestic subsidies, and the like on farm products. Through its high tariff policy the United States has joined in making international trade difficult, although this country is now not a debtor nation, but a creditor nation, and needs to enable foreign nations to send goods to the United States to pay their debts and to pay for United States exports. Recently, a beginning toward increased foreign trade has been made through reciprocal trade agreements and farmers have more to gain through this policy, if it is wisely carried out, than has any other group. The progress has, however, been necessarily slow, and many Americans have lost faith in expansion of the foreign market as a way to renewed prosperity. They believe we should concentrate on the home market instead, with agriculture as well as industry taking the nationistic view.

It is entirely reasonable that American farmers should want to make the most of their great home market, but the question still remains, How can they really do so?

A number of answers are suggested.

Some people, observing the increase in farm imports during the last 2 years, are saying that the thing to do is to cut out all imports of farm products that can possibly be grown in this country.

Another suggestion is that we set up a 2-price system with no production control, and sell the export part of our crops at low prices abroad, and the domestic part at a higher price at home, with the Government or the farmers themselves absorbing the difference.

Other people urge the encouragement of new industrial uses for American farm products.

Let us examine these proposals.

An Embargo on Farm Imports?

What about farm imports? Have they damaged the domestic market and domestic prices? What is the relationship between farm imports and farm prosperity? Would farmers benefit if, by high tariffs or an embargo, we cut out all imports of those products which American farmers themselves can produce?

The Department of Commerce reports that during 1935 this country imported a total of $1,106,000,000 worth of products classed as agricultural. This sum is a good deal less than the 10-year average of 1⅔ billion dollars, or the 20-year average of 1¾ billion. In 1929 we imported over 2 billion dollars worth of agricultural products, and in 1920, nearly 3½ billion dollars worth.

The 1935 total, like the others, included coffee, rubber, raw silk, tea, cocoa, spices, bananas, and similar commodities, none of which is produced by American farmers. These products accounted for more than one-third of the total value, or about $483,000,000.

There were left then, some $623,000,000 worth of agricultural products, partly or wholly competitive, imported in 1935. The largest item in this total is sugar, amounting to $134,000,000. This country has a high protective tariff on sugar, as on many other items such as wool and some of the oils.

The increases in imports of competitive items, including those on which there are high protective duties, are due partly to improvement in the purchasing power of consumers in the United States, which brought about a return toward normal volume in imports of those items that we regularly imported before the depression.

But the most important single factor in the increased importation of many items has been the drought of 1934.

It was the worst drought in our history. It caused a reduction in our total feed supply, compared with normal, of some 50,000,000 tons, or about one-half. The corn crop alone was cut down by a billion bushels. The adjustments in corn and wheat acreage through the Agricultural Adjustment Act were negligible in comparison with the reduction due to the drought.

In the 18 months from July 1934 to December 1935, during which time the drought shortage was most felt, feed imports represented only about 7 percent of the drought reduction.

All these imports paid the usual tariff duties—25 cents a bushel for corn, 16 cents a bushel for oats, 10 percent ad valorem for wheat unfit for human consumption, and so on. Only on hay brought into the drought-affected area at the urgent request of farmers in the Northwest, was the duty removed.

Imports Returning to Normal

The peak of imports caused by the drought was reached in 1935, the months differing with the different products, and depending on when the new crops were harvested. Since then imports have greatly receded and, for most products, are now practically normal. Imports of oats have been negligible since May 1935. Imports of corn have rapidly receded since last November; in March of 1936 they were 66 percent less than in the same month a year previously. While rye tariffs are proportionately lower than tariffs on other grains, rye imports have been insignificant since August 1935.

Imports of butter reached their peak in the late winter of 1935; in the last half of the year they amounted to only a little over a million pounds, which is below the 10-year average.

Imports of wheat have continued into 1936 because the United States spring-wheat crop of 1935 was greatly reduced in both quantity and quality by serious rust damage, and therefore did not offset the drought shortage. The bulk of present wheat imports is of hard spring wheat, brought in to meet domestic requirements for this type of wheat, and paying the usual duty of 42 cents a bushel.

A drought twice as bad as any other that has occurred since the Civil War, resulted in imports of corn representing only about 2 percent of the average United States production; of wheat, a little over

3 percent; of beef, including canned beef, 3 percent of average slaughter; of pork, one-tenth of 1 percent of average production; and of butter, 1 percent.

The situation caused by the drought of 1934 is now pretty well over, although its effect on livestock marketings will be felt for another year. Imports brought about by the situation have receded and are receding, and will soon be back to normal.

The increased imports were due to an absolutely unprecedented condition. There is no point in viewing the farm imports of 1935 which were caused by the drought of 1934, as reflecting a normal situation. It is wholly misleading to compare the situation in 1935 with the situation in 1932, without regard to production figures for the 2 years. Both farm and industrial imports were low in 1932, in fact, the lowest in a generation.

What Do Imports Do To Income?

This leads to a consideration of the relationship between farm imports and farm prices, and between farm imports and farm income. When farm prices drop after a period when imports have been coming in, it is almost never because the imports caused the decline in domestic prices.

Imports are attracted over the tariff by unusually high domestic prices, and to keep on attracting imports the price has to remain high. The tariff really works for the farmer in such a situation.

But what is the usefulness of the tariff to farmers during a year like 1932? In that year imports were certainly kept out. Imports of corn were only 400,000 bushels. But corn was selling for as little as 10 and even 5 cents a bushel in some of the Corn Belt States, and of what use was the 25-cent tariff on corn then? Wheat sold for 28 cents a bushel and of what use was the 42-cent tariff in that situation? Butter sold as low as 14 cents a pound while being "protected" by a 14-cent tariff. Hogs sold for $3 a hundredweight and less, and of what use was the $2 tariff?

In 1935, after a year of extreme drought, imports were larger. But farmers were receiving an average of 58 cents for corn, $1 for wheat, over $10 for beef, $8 for hogs, over 30 cents for butter. Cash farm income stepped up from less than 4½ billion dollars in 1932 to almost 7 billion dollars in 1935.

The right tariff level for any farm product is another question. When protection is so high that prices rise to very high levels, the result is either that consumption is reduced, or more producers enter the field and eventually bring about overproduction, so that the benefit is only temporary. Protection ought to be applied equally to both agriculture and industry and in such a way that those branches of agriculture which have long been in the export market, are not harmed.

For most American farmers, 90 percent of the time, the farm tariff does not mean a thing either way. During the other 10 percent of the time, after unusual weather, the tariff is effective, as shown by the coming in of a few imports, and it means farmers are getting good prices for their products.

Tariffs Harmed and Did Not Help Agriculture

Are farmers going to accept the high-tariff idea as a cure-all for agriculture? All through the twenties farmers asked for a program for agriculture that would enable them to meet the situation of surplus acres, and they got high tariffs. The result was that agriculture was not helped, but harmed. Farmers had to buy in a protected market and sell in an unprotected market. In 1932, with surpluses three times the normal volume, corn at 10 cents, hogs at $2, wheat at 30 cents, what did the tariffs mean?

Farmers wanted a program that would protect their home market from the price-smashing weight of surpluses that could not be sold either here or abroad. They wanted an equivalent of industry's tariff. In 1933 they got at least a start toward such a program, with adjustments in acreage financed by processing taxes that were somewhat the equivalent of industry's tariff. Farmers began to see their way to a balanced relationship with industry, so that agriculture as well as industry might obtain just benefit from the home market.

Farmers have more to lose through nationalistic policies, than any other group. In 1936 farmers are cultivating probably 35 to 45 million acres to produce things which will be sold abroad. If all imports that can be produced in this country were shut out, the most land that would be required to produce those imported products in this country would be perhaps 10 million acres. It wouldn't be good sense to risk having to leave 35 to 45 million acres idle in order to try to gain a market for 10 million acres. Other countries do not want to accept our products if we will not accept some of theirs. They are able to put up trade barriers overnight to keep out any of our products that they do not want.

The Real Farm Problem

With normal producing weather this year and next, extraordinary things could happen to supplies and prices of farm products.

This is the central farm problem.

American farmers would like to see their remaining foreign markets improved, but great surpluses of exportable farm products should not be allowed to wreck the domestic market and price in the future.

To meet this situation it is suggested that we discard all checks on production and adopt a 2-price system, or export bounty, which would be a straight subsidy of production. This, some believe, would enable farmers to send surpluses abroad at lower prices, while selling the domestic part of the crop at home at higher prices.

For a given commodity, and for a short time when certain foreign conditions are favorable, this plan can work. However, as a long-time policy applied on a large scale, the dual-price or export-subsidy system would bring more grief than benefit to farmers and to the Nation, particularly if it were used in place of some control over production.

Underwriting the export market in this manner would surely bring into production an increasing acreage of the commodity affected. Increasing production would mean increased export surpluses which in turn would require higher and higher subsidies to maintain price. Finally, the policy would result in the economic insanity of virtually giving away to foreign nations a large part of our wealth and soil fertility.

Besides, it is extremely probable that we could not get rid of huge surpluses in this manner, no matter how big the subsidy, especially if at the same time we refused to accept imports.

Use of export subsidies by nations is really international price cutting. It is a form of cut-throat competition that ruins everybody if it is carried far enough. The only kind of international trade which is worth anything on a large scale and in the long run, is the kind that trades goods and services for goods and services.

Reciprocal Agreement Policy

Efforts by the State Department to work out better foreign trade conditions through a reciprocal trade agreement policy, when compared with congressional tariff-making, constitutes a much fairer approach, at least from the standpoint of agriculture. In this new approach every item on which an import duty reduction is proposed, receives careful and scientific study that takes into account the significance and effect of any duty reduction, from both the national point of view and that of the industry involved. Under the old approach the rates of duties on particular items were determined primarily by relative political strength and bargaining skill of contending interests. In such a set-up agriculture was manifestly at a disadvantage since most of its major branches are on an export basis or so close to it that they are not in position, under ordinary weather conditions, to benefit from increased import duties.

Agriculture has obtained real benefit from the reciprocal trade agreement policy. Though temporary adjustments by certain producers may be required, farmers as a whole group have much to gain from it.

Another suggestion for bettering the market for farm products is to encourage their greater industrial use. Industry already buys more than 40 percent of its raw materials from the farmer. It buys cotton for making clothes and other products, it buys tobacco, it buys corn for starch, for sirup, and for other products, it buys soybean oil for paints, varnishes, and other industrial uses. The Department of Agriculture has made important discoveries in new industrial uses for farm products. In cooperation with the experiment stations of the leading Corn Belt States it has recently established a soybean industrial utilization laboratory at Urbana, Ill. It is supplying funds for experiments in the use of cotton in road building.

Although time and money spent by industrialists in opening up new uses for agricultural products are a fine contribution to the general welfare, this industrial-use program in itself does not seem to be a solution to the new farm problem. Experimental activities are slow. It is not likely that a sudden industrial discovery will open up the need for the products of 30 or 40 million acres and solve the farm problem overnight.

Farmers Are Part of "The Home Market"

Grim experience has taught agriculture to be realistic about the problem of achieving and maintaining the home market for its products. Farmers have learned that they themselves and the industries directly dependent upon agriculture comprise a large part of the

home market. They know that nothing is gained but everything is lost by extreme tariff measures which do not protect the home market, but do bring retaliatory amputation of export outlets, backing up of farm products at home, wrecking of American farm prices, crippling of farm buying power, and actual ruin of the home market, instead of building it up.

Applying the test of practicability to the various suggested alternatives, we may fairly classify into two main groups the workable measures offered to enable agriculture to make the most of the home market.

The first group includes those measures designed directly to maintain a balanced agricultural supply situation in this country, to avoid piling up price-breaking surpluses, and to substitute sound and economic land use for exploitive methods that exhaust the agricultural plant.

The functions of the agricultural adjustment programs included reducing surpluses, restoring balance to supply, raising farm prices, and helping to restore a home market to American industry. The reciprocal trade agreements are part of a general effort to remove barriers to international commerce, to revive world trade, reopen foreign outlets for farm products, and improve supply conditions for our basic farm crops.

In the present agricultural conservation program farmers are making another approach to the supply problem, from a long-time as well as an immediate point of view. The reasons for ruthless exploitation of soil have often been economic—under pressure of extreme supply and price fluctuations farmers have alternately been forced by ruinously low returns and induced by boom conditions to mine and sell the fertility of their land or to turn under millions of acres of grasslands which should have remained in sod. To the Nation and to the individual farmer it is important that production and prices be stabilized, and that the productivity of farm land be maintained.

While the agricultural conservation program will be of immediate assistance in stabilizing supplies, it is not a direct production-control measure. The drought helped to dissipate surpluses, but normal weather would bring surpluses again, and would require the utilization of production-control measures by States, in the way left open to farmers. The year 1938 is sure to see an experimental effort by farmers to meet their supply problem through cooperation of the States. The farm surplus problem is not abolished, nor has agriculture's interest in a balanced supply situation evaporated. Agriculture will fight against recurrence of the surplus condition that ruined farmers in 1932.

Measures for Enlarging Demand

The second great group of measures available to protect and increase agriculture's stake in the home market includes those which bear upon the demand side of the farm problem. They comprise all those means by which this country is attempting to extend buying power to vast groups of citizens who now have little or no buying power, and to open the great market which could be opened in this country if the 10 or 11 million people now unemployed were working, had incomes, and could buy the goods of farm and factory. Besides

the jobless, great numbers of others have incomes so low or so uncertain that they can buy only meagerly.

The great problem of an industrial nation is to assure distribution of the fruits of industry back to the masses of workers. Mass-producing industries can function steadily and successfully only on a basis of mass consumption. Otherwise goods pile up, purchasing power becomes concentrated in a few hands, and civilization is shaken by recurrent plagues of unemployment and depression.

Industrial Recovery Helps Farmers

Revival of the purchasing power of 30,000,000 farming population has resulted in great improvement in activity and employment in a good many industries. Conversely, the successful revival of industrial activity, the distribution of the products of industry among the masses of the people, the protection of the people's savings, and the stabilization of employment mean to farmers a healthy and growing home market for their products.

Gains have already been made in this direction. During the first 3 months of 1936 farm income from the sale of products was over a billion and a half dollars, an increase of 20 percent over the income for the same months in 1935. Benefit payments are not included. The recession in farm income and rural retail business that followed the Hoosac Mills decision has been succeeded by new gains as farm confidence has been restored, benefit payments have been resumed, and the price situation strengthened.

This increase in farm income came about not through higher prices, but through the ability of consumers to absorb a larger volume of farm products at a reasonable price, through increased purchasing power.

The trend of income to farmers follows very closely the trend of factory pay rolls. The incomes of consumers, and the sums they spend for dairy and livestock products, follow an almost identical trend. Both reached a low point in 1932, and both had increased by approximately one-third by the beginning of 1936. The same general rule holds, though with variations, for other farm products. Now that factory pay rolls and consumer purchasing power are increasing, farmers are benefiting in a rather striking way, since the margin taken out by middlemen tends to remain fairly constant, and additional consumer expenditure therefore goes quite largely to the producer.

Agriculture's Stake in National Welfare

The real hope of attaining and maintaining a great home market for American agriculture actually lies in keeping a healthy farm supply situation; in opening and keeping open the channels of international trade, so that surpluses of our great basic commodities will not back up on the domestic market; in conserving soil resources by sound production of sufficient supplies and not in wasting these resources by reckless overproduction of price-breaking surpluses.

On the demand side, agriculture's interests are served by building up the home market. Agriculture benefits from increased industrial activity and from measures designed to put purchasing power into the hands of the large numbers of people who still have almost none. This is agriculture's great stake in the national welfare.

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